Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0270	**Title:**	Tax credit for purchase of health care
Primary Sponsor:	Lange, Michael	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	($83,813,629)	($176,130,030)	($178,546,801)	($180,988,235)
Net Impact-General Fund Balance	($83,813,629)	($176,130,030)	($178,546,801)	($180,988,235)

Description of Fiscal Impact: This legislation creates a refundable tax credit for unreimbursed health care expenses paid by individual taxpayers and a second refundable tax credit for small employers that provide health insurance to employees.

FISCAL ANALYSIS

Assumptions:

1. In Section 1, the proposed legislation would create a refundable tax credit equal to 50% of unreimbursed medical expenses paid by a taxpayer during the tax year, including insurance premiums. This fiscal note uses the amount of medical expense, medical insurance premiums, and long-term care premiums claimed as itemized deductions as the best estimate of the amount of unreimbursed medical expenses. In 2005, itemizing taxpayers claimed $285,582,336 in insurance premiums, $21,201,487 in long-term care insurance premiums, and $538,591,570 in medical expenses, for a total amount of unreimbursed medical expenses of $845,375,393 ($285,582,336+ $21,201,487+ $538,591,570). This estimate of unreimbursed medical expenses excludes any medical expenses paid by taxpayers who did not report medical expenses on their tax forms, such as those that do not have to file tax forms, taxpayers who claim the standard deduction, and or taxpayers that clearly do not have medical expenses above the 7.5% of Montana

Adjusted Gross Income floor that is required to claim the itemized deduction for medical expenses. Therefore, this fiscal note is likely an underestimate of the actual fiscal impact of the proposed legislation.

2. The proposed credit in Section 1 is equal to 50% of the taxpayer's unreimbursed medical expenses, up to a maximum credit that varies by filing type and household income. The credit is refundable and may be claimed even though the taxpayer has no taxable income. As provided in the proposed legislation, the credit refund is not taxable income. A computer simulation program was constructed to estimate the cost of the proposed credit based on the amount of unreimbursed medical expenses claimed as itemized deductions in 2005. The total amount of credit claimed under the proposed legislation would have equaled $55,877,409 in tax year 2005.

3. Under current law, itemizing taxpayers may take a deduction for medical expenses over 7.5% of their Montana adjusted gross income, medical insurance premiums paid, and long-term care insurance premiums paid. This deduction cannot be taken on any expenses used to claim the proposed credit. Therefore, taxpayers who take the proposed credit would reduce their itemized deductions, thus increasing their tax liability. The increase in tax liability is an offset to the cost of the credit. A simulation program was run using the 2005 taxpayer data to determine the amount of the offset if the proposed legislation would have been in effect during 2005. This simulation program assumed that the removal of the medical expenses used to claim the credit did not reduce the amount claimed as deductible medical expenses below the 7.5% floor. The amount of the offset was estimated to be $5,816,445 in 2005.

4. The fiscal impact of the proposed credit, or the offset minus the credit claimed, would have been ($50,060,964) in 2005. Growing this cost by the population growth estimates used in the HJR 2 2009 Biennium revenue estimates, the fiscal impact of the proposed credit is ($52,003,329) in tax year 2007 (the first year of the credit), ($52,719,201) in tax year 2008, ($53,440,079) in tax year 2009, and ($54,170,814) in tax year 2010.

5. Sections 2 and 3 of the proposed legislation create a tax credit for small employers who provide health insurance coverage for employees and their families. The legislation limits the credit to small employers who employ 20 or fewer employees. The Bureau of Labor Statistics reports that in 2005 there were 33,867 private establishments in Montana with fewer than twenty employees, with a total of 79,881 employees in firms of less than 10 employees and 54,558 employees in firms of 10 to 19 employees. According to the Kaiser Commission on Medicaid and the Uninsured, half of employees working in firms of less than 10 employees and 30% of employees working in firms of 10 to 24 employees were uninsured in 2005. Applying these percentages, the estimated number of uninsured employees among small businesses in Montana is 56,308 (79,881* 50% + 54,558* 30%).

6. The credit can also be claimed for an employee's spouse and dependants. The U.S. Census reports that 57.1% of Montanans (over the age of 15) are married; therefore, the total number of employees and spouses is estimated to be 88,460 (56,308 + (56,308* 57.1%)). According to the U.S. Census Bureau American Community Survey, there are approximately 0.29 children per adult in Montana. It is estimated that the 88,460 employees and spouses will have a total of 25,475 children. Employers may claim a credit of $100 a month for each employee, $100 per month for each spouse, and $40 a month for each dependant. Therefore, the estimated cost of the credit if the proposed legislation had been in place for 2005 would have been ($118,379,796) ($100 * 12 * 88,460 + 25,475* $40* 12).

7. Using the population growth estimates used in the HJR 2 revenue estimates, the cost of the credit would grow to ($122,972,932) in tax year 2007, ($124,665,763) in tax year 2008, ($126,370,432) in tax year 2009, and ($128,098,410) in tax year 2010.

8. The total between both credits proposed by this legislation would equal ($174,976,261) in tax year 2007, ($177,384,964) in tax year 2008, ($179,810,511) in tax year 2009, and ($182,269,224) in tax year 2010. Using the HJR 2 conversion factors, 47.9% of tax revenues for 2007 are received in FY 2008 and 52.1% are received in FY 2009, the total fiscal impact of this legislation by fiscal year is ($83,813,629) in FY 2008, ($176,130,030) in FY 2009, ($178,546,801) in FY 2010, and ($180,988,235) in FY 2011.

9. This bill is effective upon passage and approval and is retroactive in its application to tax years beginning after December 31, 2006.

10. The Department of Revenue does not anticipate any administrative costs created by the proposed legislation.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
Revenues:				
General Fund (01)	($83,813,629)	($176,130,030)	($178,546,801)	($180,988,235)
TOTAL Revenues	($83,813,629)	($176,130,030)	($178,546,801)	($180,988,235)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($83,813,629)	($176,130,030)	($178,546,801)	($180,988,235)

Effect on County or Other Local Revenues or Expenditures:
1. None.

Long-Range Impacts:
1. This legislation will create significant revenue losses in future fiscal years not covered in this fiscal note.

Technical Notes:
1. There were 447 households that filed as head of household with no dependents in 2005. These filers can file as head of household if they pay child support. This fiscal note assumes that head of household filers without dependants are awarded the credit as though they were filing singly.
2. This legislation indicates that S. corporation shareholders may claim a pro rata share of the tax credit. It is not clear what a “pro rata” share is. Other credits are distributed based on the share of the income or loss of the corporation received by the taxpayer.

Sponsor’s Initials	*Date*	*Budget Director’s Initials*	*Date*